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British Business in Peru. From the Pacific War to the Great Depression[1]

Introduction

Research on British business in Peru has been informed by two debates, each of which has generated a substantial literature. The first is the controversy over imperialism and dependency, which dominated research in this field for twenty years. A number of different intellectual traditions converged to stimulate this debate in the late 1960s, the most important being the work inspired by the path-breaking article of John Gallagher and Robert Robinson (1953) on the imperialism of free trade, and the school of dependency writing that emerged in Latin America under the influence of authors like André Gunder Frank and Fernando Henrique Cardoso. Historians concerned with this controversy concentrated on investigating supposed inequalities of power and bargaining (Miller 1999). In the Peruvian context its influence can be seen in the contrasting interpretations of the role of foreign capital put forward by historians like W. M. Mathew (1968; 1977; 1981) and Ernesto Yepes del Castillo (1972). The second major influence, much more evident since the mid-1980s, is mainstream research in business history. One significant debate has centred on the apparent tardiness of the British in establishing modern forms of company organisation in contrast to their US counterparts, and the extent to which the 'backwardness' of the British firm contributed to the country's economic problems (Chandler 1980). In the 1980s Chandler's comparison of British and US firms and later research on early British multinational enterprise helped to stimulate two significant conceptual advances, when Stanley Chapman

1 My thanks are due to Colin Lewis and Bill Albert for reading previous drafts of this chapter. They bear no responsibility for its contents.

(1985; 1992) and Mira Wilkins (1988; Wilkins/Schröter 1998) proposed the concepts of the merchant-based investment group and the free-standing company respectively. This helped to reintegrate research on British firms in Latin America with British business history: both Chapman and Wilkins referred to cases of British firms which invested on the west coast of South America. The key questions in this literature centre on understanding the dynamics, institutional structures, and management of British firms overseas, rather than their power and bargaining capacity.

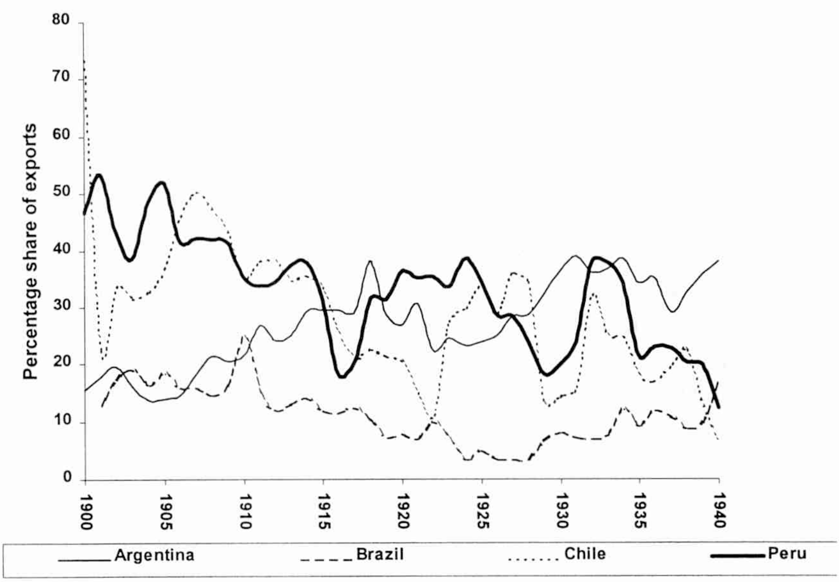
It goes without saying that there is an obvious dialectic between these broader debates and empirical research on British business in Peru. Ideas of informal imperialism and dependency soon had an influence on historians working in Peru itself on the British role in the country (Bonilla 1972; Burga/Flores Galindo 1979; Burga/Reátegui 1981). These assumptions dominated scholarship for twenty years. It was not really until the very end of the 1980s, with the research of a younger generation of historians like Alfonso Quiroz, that 'dependency' began to be regarded more sceptically and the autonomy and dynamism of the domestic business elite was better appreciated (Quiroz 1988). This change in viewpoint gathered pace in the 1990s. In Peru, as elsewhere in Latin America, perspectives on the role of foreign business are now being transformed. Much greater emphasis is being placed on local agents of change, internal circuits of commerce, and the particular features and dynamic of Peruvian business organisation. At the same time improvements in our understanding of British business in Latin America as a whole are throwing into relief the peculiar features of Britain's participation in the Peruvian economy. The contrast is quite striking. In those countries where British investment became concentrated in the generation before 1914 (Argentina, Brazil, Chile and Mexico), the significance of the ordinary merchant declined while that of the merchant banks and large companies based in the City of London increased (Miller 1993: chaps. 5-7). In the larger countries the latter became the most visible symbol of British business interests. This was not the case in Peru. Here merchant houses, together with a handful of free-standing companies, remained the dominant actors in the business relationship. Grasping this point is fundamental to understanding both the evolution and the influence of British business in Peru, and the reasons for this distinct pattern of development thus require some explanation.

First, the experiences of the guano period and the consequences of the massive default of 1876 meant that the history of British purchases and holdings of Peruvian government bonds was unique. Most Peruvian government borrowing, based on revenues from the guano trade, was concentrated between 1848 and 1872. During this period Peru issued a series of loans of increasing nominal value – £ 2.6 million in 1853, £ 5.5 million in 1862, £ 10.0 million in 1865 – to consolidate previous borrowings and finance fiscal deficits. The increasingly chaotic state of government finances, a morass of internal and external debts and sums due to guano contractors and domestic banks, culminated in the ill-fated drive to 'turn guano into railways' on the basis of two massive loans with a nominal value of £ 33.2 million in 1870 and 1872, just when the quality, quantity, and price of guano exports were declining (Palacios Moreyra 1983: chap. 3). Default quickly followed in 1876. Although the government cancelled the debt in 1889 by transferring major assets, including the state railways, land concessions, and a monopoly on guano exports, to its creditors, Peru never again returned to London for large loans (Miller 1976).

Second, British-controlled banking and insurance companies were also largely absent from Peru. The Lima branch of the London Bank of Mexico and South America, which dated from 1863, was one of only two Peruvian banks to survive the Pacific War, and it merged with the Banco del Callao to form the Banco del Perú y Londres in 1897. Henceforth London financiers retained only a minority holding. For the most part the Banco del Perú y Londres may be considered a domestic Peruvian institution, although there were brief periods, especially in the decade before the First World War, when foreign control from Paris and London strengthened (Joslin 1963: 213; Quiroz 1993: 67, 76-77). Peruvian capitalists also took over the insurance sector after Congress approved a number of measures regulating foreign insurance companies between 1895 and 1902. This campaign compelled them to invest in local real estate or internal bonds and eventually provoked the withdrawal of all the British firms which had formerly used agents (often merchants) to write business in Peru (Garland 1908: 306-307).

Third, due to Peru's peculiar mix of exports, commodity markets in Britain remained important long after their significance had declined for other countries. This applied especially to cotton and wool, to a lesser extent to sugar and minerals. While the role of the British market, as Figure 1 suggests, diminished slightly in the first decade of the twentieth century, as new exports of copper and petroleum found outlets elsewhere, its share of a rapidly growing trade subsequently remained largely stationary until the mid-1920s. It was only the outbreak of the Second World War which pushed the British share of Peru's exports permanently below 20 per cent. This sustained role of the British market, particularly for the specialised varieties of wool and cotton produced in Peru, provides at least a partial explanation for the continued influence of British merchants in key economic sectors. It was also of some political significance, since Britain remained an important market for those export sectors not under foreign ownership, including the powerful sugar producers (Albert 1982: 123-126).

Figure 1: Share of Latin American countries' exports shipped to Britain



Source: Calculated from Mitchell (1983).

One further point needs to be made by way of introduction. Unlike most of the British firms in larger countries like Argentina, Brazil, and Mexico, many of those operating in Peru worked in neighbouring economies and in other countries in the Pacific Basin. This practice dated back to the time of independence when merchants like Antony Gibbs & Sons and the precursors of Graham Rowe founded associated houses in both Valparaíso and Lima. It was reinforced in the mid-nineteenth century by the growth of the nitrate trade, which linked production in the Peruvian province of Tarapacá with the commercial centre of Valparaíso in Chile. The coastwise exchange of Peruvian sugar for Chilean wheat and flour had also continued after independence, with some firms engaged in both. Many of the merchant houses thus developed activities in both the major economies of the west coast. In some cases they extended them to other parts of the Pacific, Gibbs to Australia and Balfour Williamson to California. Some of the major free-standing companies in Peru also had interests in neighbouring countries. The Peruvian Corporation competed for the rail traffic of the Bolivian altiplano, while Lobitos Oilfields developed production facilities in Ecuador and sales outlets in Chile. The other major firm in the Peruvian oil industry, London and Pacific Petroleum Company, was initially developed by a partner of the famous Anglo-Chinese house Jardine Matheson, and its name suggests the hopes he held for a transoceanic trade.

The Peruvian background

One of the most striking characteristics of the Peruvian economy from 1840 until 1970 was the frequency with which new exports appeared whenever existing ones ran into difficulties (Thorp/Bertram 1978). Peru was never a monocultural economy like Chile or Brazil. Even at its peak guano seldom accounted for more than two-thirds of exports, and this proportion was declining after the early 1850s.[2] Silver exports recovered

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2 Peruvian export statistics in the nineteenth century are fraught with difficulties as regards both volumes and values. The most careful reconstruction of export volumes, but using 1900 price weights, is Hunt (1973), from which these points are drawn.

relatively quickly after independence and remained significant throughout the nineteenth century (Deustua 1986). The trade in sheep and alpaca wool from the south also began to develop from the 1840s (Miller 1982a; Jacobsen 1984). The capital accumulation of the guano period then helped both domestic and foreign entrepreneurs to diversify into nitrate, sugar and cotton.[3]

Following Peru's defeat by Chile in the Pacific War (1879-83) the volume of exports collapsed to less than a quarter of the pre-war peak. Nevertheless recovery, initially based on silver and sugar, was not long delayed. After the mid-1890s there were successive spurts of growth in wool, cotton, copper, rubber, and petroleum. As a consequence export volumes doubled between 1891 and 1900, doubled again in the following decade (surpassing the pre-war peak of 1874 in the process), and doubled yet again by 1923 (Thorp/Bertram 1978: 5). In the 1930s and 1940s the country's experience again contrasted with the Latin American norm. Peru recovered relatively quickly from the Depression, but then export performance slowed until the exploitation of new mineral deposits and fishmeal brought two more decades of growth in the 1950s and 1960s (Thorp/Bertram 1978: 151-154, 208-210).

The 'open' economy which this history of export success stimulated helped to retard industrialisation and, in contrast to the era when guano was dominant, fostered a relatively weak and non-interventionist state after the Pacific War. There was little need for the state to intervene in the export economy, whether to regulate production or support prices (in contrast to Brazil), or else to extract a fiscal rent from foreign owned mineral exports (in contrast to Chile or Venezuela). Most exporters actively opposed any intervention in their affairs by the state. Public expenditure remained at a relatively low level, roughly half that of Chile, a country of similar size and population (calculated from Mitchell 1983). Moreover, Peruvian entrepreneurs, whether locally born or immigrant, remained in control of much of the country's agriculture, leaving foreign firms in intermediary roles or in sectors like mining and petroleum where larger infusions of capital and technology were re-

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3 See especially Bermúdez Miral (1963); Macera (1977, IV); Engelson (1977); Bell (1985).

quired. Taken together, these features provide the background against which British business in Peru evolved.

Although they had initially arrived as importers, British merchants inserted themselves into this export economy from an early stage. Most famously, of course, Antony Gibbs & Sons acted as the Peruvian government's main guano consignees and financial agents in Europe from the inception of the fertiliser trade in 1840 until 1862 (Mathew 1981). Less well known is the way in which the merchant house of Schroders in London also extracted substantial profits from its involvement in the later stages of the guano trade in the 1870s (Roberts 1992: 82-86). The trade stimulated by guano provided the foundation for capital accumulation by Gibbs and other foreign and Peruvian entrepreneurs. This in turn opened opportunities for British firms elsewhere in the economy. The clearest direct link lies in the expansion of nitrate exports from Tarapacá, which increased from 86,659 tons in 1868 to 326,869 in 1875, competing with guano in European fertiliser markets. With Gibbs again to the fore British mercantile interests came to dominate a large share of this industry. By the early 1870s they were fulfilling a range of functions: trading nitrate on the Valparaíso market, financing and consigning it on behalf of small producers, and operating *oficinas* themselves (Greenhill/Miller 1973: 119). When the Peruvian government made its vain attempt to rationalise the business after 1875 by expropriating *oficinas,* curtailing production, and attempting to manipulate the market with the output from the state's plants, it almost inevitably turned to Gibbs to manage the *oficinas* transferred to the public sector and act as its principal consignees abroad (Greenhill/Miller 1973: 118-121).

The degree of British intermediation in Peru's other exports before the Pacific War varied. British houses seem to have supplied little capital or credit, for example, to the pre-war sugar industry (Garland 1895: 12; Macera 1977, IV: 149). There was, however, some participation in cotton when producers responded to price rises during the US civil war. Both Graham Rowe and Green Nicholson of Liverpool, for example, advanced credit to Domingo Elías, the principal planter in Ica, against future cotton shipments, and made arrangements for purchases elsewhere on the coast.[4] However, the case of the wool trade of southern Peru offers the best example of British merchants playing a central role in a regional economy. This arose from the specialised nature of the trade and the location of its principal markets, especially for the fine alpaca fibre, in the north of England (Jacobsen 1993: 60-61, 161-167). By the mid-1870s four houses of British origin – Gibbs, Stafford, Fletcher Ryan, and Woodgate – handled all but a small proportion of the sheep's and alpaca wool exported through the major entrepot of Arequipa.[5]

The merchants after the Pacific War

Peru's defeat in the War of the Pacific sealed the collapse of an export economy based on guano and nitrate, the two principal agricultural fertilisers in nineteenth-century international trade. The best-quality guano deposits had already been exhausted. Now many of the remaining ones, together with all Peru's nitrate resources, were lost to Chile. By the time of the Treaty of Ancón in 1883 the coastal economy, in particular, was in disarray. The Chileans had destroyed much of the machinery on the sugar estates as well as railway equipment. Paper money was circulating at a fraction of its nominal value. Only two of the prewar banks had survived, while many other sources of credit had dried up. Both Gibbs and Huth, for example, had retreated from Peru in order to concentrate on their activities in Chile: other foreign houses like La Chambre and Prévost went into liquidation.[6] The government had little hope of recommencing payments on its external loans and thus reestablishing access to foreign capital markets, which were booming in the 1880s and were assumed by most influential Peruvians to be essential for the country's recovery. Many post-war politicians perceived

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4 Archivo General de la Nación (Lima), Protocolos Notariales de Lima, José de Selaya 1862, vol. 725, fols. 2201v-2203v; José de Selaya 1862, vol. 726, fols. 2491v-2492v, fols. 2498r-2499v.

5 Arequipa to Lima, 19 January 1876, GL, Gibbs archive, file 11124.

6 AFA, Cayaltí archive K201, Aspíllaga Hermanos to Henry Kendall and Sons, 21 March 1885.

little alternative but to attempt to negotiate the transfer of state-owned assets to the bondholders in exchange for the cancellation of the debt. As a consequence, at the end of 1889, the Cáceres government signed the unpopular Grace Contract with the foreign bondholders, and the following year the Peruvian Corporation was founded to manage their newly acquired assets, which included the railways, land and mineral concessions, and the right to export guano.[7]

However, despite the withdrawal of some of its leading members such as Gibbs, other elements of the British merchant community survived the war successfully. Indeed the lack of other sources of credit enhanced their role, especially on the coast. Liverpool-based merchants, in particular, remained significant. Graham Rowe, Duncan Fox, Mathison Beausire (later H. M. Beausire and Co.), and Wm. & Jno. Lockett all figured in a list of the leading thirteen merchants in Lima in the late 1880s (Bollinger 1971: 73). In addition Henry Kendall and Sons of London developed close links as consignees and creditors with some sugar and cotton *hacendados*, although they never established an office in Peru (Gonzales 1985: 35). The British presence in the Arequipa wool trade also persisted, although new firms such as Gibsons and Ricketts replaced those which had vanished during the war (Jacobsen 1993: 190).

In the sugar industry the pressures of the market, environmental and ecological conditions in Peru, and changing technology all stimulated the concentration of production in large plantations located in a small number of coastal valleys between 1880 and 1914. Because of the scale of production on individual estates as the industry consolidated, only those merchants with access to substantial financial resources could really become involved in sugar. Plantations needed both short-term credit and long-term mortgages to finance the acquisition of land and transport, milling, and refining equipment (Albert 1976: 25a-64a). Kendalls' mortgage on the Cayaltí plantation, agreed with the Aspíllaga family in 1884, for example, involved a sum of £ 32,000.[8] This, together

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[7] Miller (1976); Basadre (1962,VI: 2749-70); Quiroz (1983); Clayton (1985: chap. 7); James (1993: chap. 15).

[8] AFA, Cayaltí archive, K201, Aspíllaga Hermanos to Prévost & Co., 13 August 1883.

with the fact that sugar production in Peru was a year-round activity, tied producers closely to their merchant partners, and made it difficult for them to break commercial and financial links once they had initiated them. The British participation in the sugar trade was substantial, but it was by no means dominant. There was always the threat that the larger producers would accumulate sufficient resources to be able to manage without them, establishing direct connections with their markets. Thus the two largest plantations in the Chicama valley, Casa Grande and Cartavio, did not depend on British merchants, but on finance from the Gildemeister and Grace family fortunes. Instead British houses tended to provide the credit and commercial connexions for the successful medium-scale producers, Graham Rowe, for instance, for the various plantations belonging to members of the Larco family, Kendalls for Cayaltí and Pomalca.[9] Generally the trade functioned on a consignment basis. The merchants charged commissions both on sales of sugar in Britain and on the supplies they purchased for the plantations as well as receiving interest on the mortgages and the short-term credit represented by the bills of exchange which the planters drew on them against the security of the shipments they had made. While Peruvian producers did complain at times about their dependence on foreign intermediaries, on the whole the potential for abuse by merchants trading on consignment was limited, especially once producers began to negotiate their own sales on the Chilean market.[10]

The merchant role in the cotton trade, which began to grow significantly during the first decade of the twentieth century, was quite distinct, partly because of the different structure of production. In contrast to the large consolidated sugar plantations, the British merchants dealt with hundreds of smaller estates situated in most of the fifty valleys along the Peruvian coast. However, it was not only the difference of size and scale that was important. Unlike sugar, which had to be milled quickly, the processing equipment for cotton could be located some

9 Víctor Larco apparently severed his connection with Graham Rowe in 1922, turning to the Lima banks for finance: H. E. Dawson to A. S. Cooper, 2 September 1922, file 62, Peruvian Corporation archive, Lima; Kendalls started to finance Pomalca in 1912: AFA, Cayaltí archive, K211, Lima to London, 30 March 1912.

10 AFA, Cayaltí archive, K211.

distance from estate boundaries. Sales of cotton to local textile factories also took a significant and increasing share of output. The demand for credit concentrated on short-term *habilitaciones* secured on each annual crop rather than long-term mortgages. Moreover, as well as trading on consignment, merchants often bought cotton on the coast and shipped it at their own risk.[11]

These differences are well-known, but the day-to-day operations of the trade are much more poorly documented than that in sugar, and the extent of British participation more obscure. Other foreign and Peruvian merchants in Lima, as well as the banks founded at the turn of the century, made loans to producers. However, British houses do appear to have taken a major share of the business, helped by the fact that Lancashire (and Yorkshire) remained significant markets for the specialised cotton varieties cultivated in Peru until the Second World War. Almost every British merchant in Lima, but particularly perhaps Duncan Fox, H. M. Beausire, Alexander Eccles & Co., and Wm. & Jno. Lockett, financed and speculated in cotton in the early twentieth century. The fact that most loans were for six or nine months, rather than years, reduced the barriers to entry, permitting producers to switch from one merchant to another and leaving space for new houses to enter the trade. Nevertheless, as the trade grew, control of ginning, and hence of the lucrative by-products of cottonseed oil and cake, shifted from landowners to the merchant sector. Duncan Fox were expanding their ginning facilities in Piura, a region they came to dominate, in 1891.[12] By 1920 they also owned gins in Pisco, Huacho, Tambo, and Lima. Beausires had been producing cotton-seed oil in Pisco since before 1906 (Thorp/Bertram 1977: 52; Pachas Castilla 1976: 37). Duncan Fox and the US house of Grace also came to control the most important cotton textile mills in Lima. However, discussion of anything but the broad

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11 This made specialist cotton traders more vulnerable. J. Lionel Barber collapsed in the 1921 recession, and Graham Rowe in 1931, both apparently as a result of their exposure to falling cotton prices: interview with Henry Beausire, Liverpool, August 1974; University College (London), Balfour Williamson archive, letter book 6, Archibald Williamson to Frederick Milne, 23 August 1920; *West Coast Leader*, 19 January 1932.

12 Wigan Record Office, Duncan Fox papers, ECC 1556/4, R. S. Temple to Thomas Woodsend, 7 July 1891.

trends in this trade is plagued by the disappearance of the merchants' archives.[13] In particular this means that it is impossible to ascertain details of the merchants' income from these trades and the extent to which this dominance of credit and processing allowed them to control producers. One point is clear, though, namely that the price fluctuations of cotton after 1920 exposed those merchants who traded on their own account and also led them into production as a result of having to foreclose on debts and take over estates. This had fatal consequences for one of the most important trading houses in 1931.

More is known about the wool trade of the south where one major archive, that of the Arequipa house which William Ricketts founded in 1895, has survived.[14] Here the British market, although diminishing, remained the most significant until the 1930s (Miller 1979: 91). Similarly, although other immigrant merchants like Forga, Yriberry, and Saíd began slowly to erode the British merchants' share of the trade, the overall dominance of houses like Stafford, now joined by newcomers like Gibson and Ricketts, continued. These three firms accounted for 67 per cent of the alpaca and 56 per cent of the sheep's wool exports from Mollendo in 1923, one of the very few years for which detailed statistics have survived. Gibsons alone shipped 43 per cent of the alpaca, 31 per cent of the sheep's wool (Bedoya 1924). The British houses in Arequipa retained a precarious and circumscribed independence for a long time due to the specialised knowledge, contacts, and reputation demanded by the trade, especially in alpaca. As the railway and telegraph improved communications they extended their direct influence deeper into the sierra by establishing branches and collection points and employing increasing numbers of agents (*rescatistas*) to purchase wool directly rather than at fairs.

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13 Graham Rowe's archives disappeared after their collapse in 1931; Beausires', both in Liverpool and Lima, were destroyed to save office space, as was the complete run of Duncan Fox's Liverpool-Lima partnership correspondence in the late 1960s.

14 These papers, which were deposited in the AFA, form the basis for Burga/Reátegui (1981). The Ricketts family, like the Gibsons, became absorbed into the *arequipeño* elite, losing its distinctly British identity, as control passed from the founder to later generations. The complete archive of Frank Michell & Sons, a major wool house founded by a British immigrant in 1931, was still in existence in 1972, but appears now to have disappeared.

Most historians believe that the balance of power, and hence of profits, in the wool trade tended to lie with the merchants. Nils Jacobsen (1993: 189, 191), for example, argues that "as trading networks in the altiplano became denser, the Arequipa export and import houses strengthened their position vis-à-vis the other groups involved", and that they "exercised the predominant influence over short-term wool prices in the altiplano". Yet it is not so easy to put a figure on this. Manuel Burga's estimate of an average profit rate of over 10 per cent for Ricketts, surpassing the normal rents from landownership in the region, rests on the experience of just one house and seems to confuse the concepts of profit margin and rate of return on capital employed (Burga/Flores Galindo 1979: 44-45; Burga/Reátegui 1981: 180-182).[15] As Jacobsen (1982: 258-259) pointed out in a review, if profits were so much higher in trade, it makes it difficult to understand Gibsons' move into landownership in 1926. Other evidence suggests that both the *rescatistas* and the *hacendados*, who became more involved in the export trade as sheep's wool replaced alpaca as the more valuable component, took advantage of the competition among the Arequipa houses.

This highlights the problems of reconciling *a priori* assumptions about the power of intermediaries, based on their greater access to information and credit, with the realities of the archives. Local landowners and politicians were frequently critical of the merchants, as well as the Peruvian Corporation, blaming the British intermediaries for impeding the development of the region by paying low prices for wool and imposing high charges for their services (Burga/Flores Galindo 1979: 34, 44-45). One obvious way in which a group of British merchants might have exploited local producers is through the establishment of a purchasing cartel to set the prices paid to wool producers or indigenous traders. However, there is little evidence that they did so successfully after the Pacific War. Burga and Reátegui (1981: 81), on the basis of the Ricketts' archives, state that such alliances were "fragile, opportunistic, and rarely long lasting". Moreover, the manner in which the trade was restructured in the late 1920s and early 1930s underlines the difficulties of the Arequipa merchants. Part of the prob-

15 A similar error was made by Pablo Macera in analysing the rates of return on railways belonging to the Peruvian Corporation (Macera/Hunt 1977: 553).

lem lay in the volatility of wool prices during that decade, but this was exacerbated by the ruinous competition for wool in which Gibsons and Staffords, the two principal exporters, engaged. One of Gibbs' partners, taken aback at the extent of the rivalry between merchants related by marriage (the chief partners were brothers-in-law), termed it a "fight to the death".[16] Both were forced, as a result, to look for injections of capital from outside. Balfour Williamson invested £ 300,000 to acquire 51 per cent of Gibsons in 1929, while Gibbs acquired Huths' interest in the failing house of Stafford.[17] However, this did not solve the problems. Gibbs and Balfour Williamson, already accustomed to operating a purchasing cartel with Duncan Fox in the Chilean wheat trade, now attempted to do the same for Peruvian wool. This, however, simply opened the way for new competitors to outbid them. These included Patten Michell, which was founded in 1931 by a former employee of Staffords and supported financially by Henry Kendall and Sons, as well as more aggressive firms like Saíd Hermanos and Grace, who now completely changed the traditional alpaca trade by offering premium prices for particular colours, further eroding the position of the older firms.[18]

Evaluating the merchants

How should the British merchant interest in Peru after the War of the Pacific be evaluated in the light of the debates about the dynamism of British enterprise overseas and business imperialism? Even their compatriots had some doubts about their role. "The great British houses in Peru", one official wrote in 1929, "the backbone of the trade between the two countries, are described euphemistically as 'conservative'. Exports are their principal interest."[19] In one sense this was correct. The leading merchants had largely neglected the general import business

16 Dobree to Korn, 27 August 1931, GL, Gibbs archive, file 16875/3.

17 Dobree to Korn, 27 August 1931, GL, Gibbs archive, file 16875/3.

18 Interview with Frank Michell, Arequipa, 17 April 1972; Michell archive (Arequipa), caja 2, Patten Michell to Henry Kendall & Sons, 13 July 1933.

19 Memo by J. V. K. Dible, 31 May 1929, PRO, FO 371/13507/A4076.

since the mid-nineteenth century, leaving the field to a variety of Peruvian and immigrant traders. As the head of Balfour Williamson had written in 1910, when evaluating the prospects for Milne & Co., in which they had just acquired a controlling interest: "Too much must not be expected in the way of an import business in Lima. It is a very small market compared even with Chile. And that is not large in the world's commerce."[20] British involvement in imports concentrated on the 'tied' trade in hardware and machinery for the estates they financed, on which they gained useful commissions, and on agencies for branded consumer products produced in Great Britain. The most significant exception, perhaps, was Graham Rowe who attempted to build up a wider importing business in machinery and motor vehicles in the 1920s, although they often found themselves compelled to deal in US marquets as a result of British manufacturing inadequacies.[21]

The charge of being 'conservative', however, does not seem entirely justified, and results rather from a conflict of outlook between diplomats responsible for trade and the British merchant houses, who did not consider themselves accountable for promoting and representing British manufacturers. In other respects they were certainly not conservative; they could not have survived the communications revolution and local traumas of the 1870s and 1880s if they had been. Bill Albert (1985: 243-245) underlines the way in which merchants transmitted technological improvements into the agricultural export sectors, even though they did not control production directly. In other respects, too, they proved innovative and expansionist, to the point of displacing local entrepreneurs in some activities. Many placed spare capital in small direct investments in Peru, specialising according to their own particular expertise. Duncan Fox, for example, who were already involved in livestock farming in Chile, developed interests in both agriculture and industry in the early twentieth century: in stock-raising in the hacienda of Atocsaico, which they later sold to the Cerro de Pasco Corporation,

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20 Balfour Williamson archive, letter book 2, Archibald Williamson to Harry Williamson, 18 February 1911.

21 Evidence mainly from advertisements in *West Coast Leader* during the 1920s, but also *West Coast Leader*, 19 January 1932, and interview with George Bertie, former director of Duncan Fox, Lima 19 November 1971.

and expanding the La Unión and El Progreso cotton mills in Lima (Garland 1905: 96-97; Jiménez 1922: 5). By the early 1930s they also had manufacturing interests in polishes, oils, and foodstuffs, probably an extension of their cotton-processing activities.[22] Wm. & Jno. Lockett formed the British Sugar Company which dominated the Cañete region until the firm sold its estates in 1920 (Albert 1976: 219a-245a). Milnes had already expanded the Santa Rosa flour mill and taken the lead in exploring for petroleum at Lobitos before their association with Balfour Williamson became more formal in 1910. They went on to acquire sugar estates as well as portfolio investments and directorships in banking and insurance (Hunt 1960: 73-74).[23] Where the merchants maintained wholesaling functions they often concentrated not on British exports but on goods they produced themselves or acquired along the Pacific coast. Thus Milnes and Balfour Williamson became the agents for the International Petroleum Company and Lobitos Oilfields Limited on the west coast, Duncan Fox for Union Oil and the London and Pacific Petroleum Company (Miller 1982b: 406-407). The British, therefore, diversified their activities in the primary, secondary, and tertiary sectors, developing international commercial links along the west coasts of North and South America.

From the time of the First World War, however, the merchants faced major problems in expanding their interests further, even though they explored many possibilities. At root their difficulties were financial and managerial, though to some extent these reflected the wider problems of the British economy.[24] Those merchants with substantial interests in trades where they purchased on their own account rather than exporting on consignment ran substantial risks if prices fell sharply. In cases where they had to foreclose on producers to whom they had granted credit facilities, the burden of running estates might make matters worse. The blame for the collapse of Graham Rowe, which foundered in 1931 owing over £ 1 million to Martin's Bank, has been

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22 Bentinck to Simon, 4 February 1932, PRO, FO 371/15787/A2128/23/51.

23 BWA, letter book 3, Archibald Williamson to Harry Williamson, 3 September 1914; *West Coast Leader*, 10 July 1920.

24 For a discussion of these issues in a broader Latin American context, see Greenhill/Miller (1998).

placed on the problems it faced in running cotton plantations, though Duncan Fox, which had also taken over estates in the 1920s, managed to survive.[25] Another problem for the smaller houses was that the larger international firms, to whom they looked for support, were themselves in difficulties. Balfour Williamson spent much of the 1920s battling to make reasonable profits, though they still had the resources to invest in Gibsons in 1929. Huth & Co. had been crippled financially since 1921, and massive personal loans to Augusto B. Leguía, deposed as president in 1930, made matters worse.[26] As for Antony Gibbs & Sons, the biggest British merchants on the west coast, one of the family reported in October 1931 that they were "for the time being [...] adamantly against any expansion in South America" on account of the capital they had locked up in Chile following the collapse of the nitrate industry.[27]

Ironically, it was just at the point that they were becoming most vulnerable that criticisms of the British merchants' role in Peru became most intense. These came from all parts of the Peruvian political spectrum, from the *hacendados* of southern Peru or the sugar planters on the one hand to radicals like José Carlos Mariátegui and Víctor Raúl Haya de la Torre on the other. Landowners complained of their subjection to the British merchant interest, the limitations they placed on the availability of credit, the interest they charged, and the price they paid for the exports they traded.[28] Mariátegui criticised the British for contributing to the distorted development of the country.

> Commerce and transport [he declared] are in the hands of foreign capital. The latifundistas have been satisfied to serve as the latter's intermediaries in the production of sugar and cotton. This economic system has kept agriculture to a semi-feudal organisation that constitutes the heaviest burden on the country's development (Mariátegui 1971: 17-18).

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25 Bentinck to Simon, 4 February 1932, PRO, FO 371/15787/A2128/23/51; Mazzei 1990: 79. The collapse of the Banco del Perú y Londres the previous year was also due in part to its exposure to coastal agriculture (Quiroz 1993: 82).

26 Dobree to Korn, 27 August 1931, GL, Gibbs archive, file 16875/3.

27 Walter Gibbs to Dobree, 9 October 1931, GL, Gibbs archive, file 16875/3.

28 More important to them, however, were probably the perceived 'labour shortage' on the Peruvian coast and the fear of taxation and government interference.

Both these issues are complex. The absence of merchant archives makes it difficult to generalise on the narrower question of merchant control and profits. As this chapter indicates, the potential for abuse varied enormously over time and from one sector to another. The British merchants, however, were themselves dependent on prices determined in Liverpool and Bradford, and were gradually displaced by more aggressive competitors in cotton and wool. On the broader point that they contributed to Peru's dependence, this was perhaps the inevitable consequence of the distorted orientation of the Peruvian economy, exacerbated by the shortage of credit after the Pacific War when the merchants concentrated on financing those exports which offered them security in a poor country with a limited domestic market and full of economic and political uncertainties. However, with a few exceptions, the sectors in which they operated as intermediaries remained under the ownership of Peruvian landowners who made their own decisions in areas like investment and labour relations. In essence Mariátegui's criticism seems as much directed at his own country's elite and at international capitalism generally as at specific malpractices or conspiracies of British merchants.

British companies and direct investment

As noted already, after the Pacific War British investment in Peruvian government debt was not significant as a result of the legacies of the guano period. Moreover, four years after the Grace Contract of 1889 the Peruvian state lost its credit on international capital markets once again due to its inability to pay agreed annual subventions to the Peruvian Corporation (Miller 1983: 333). This dispute was not settled until 1907, permitting some participation by British investors in the so-called 'Salt Loan' of 1912 for £ 1.2 million (Halsey 1918: 322-356, 520-523; Roberts 1992: 139). However, the First World War and the outbreak of a new dispute with the Peruvian Corporation, this time over guano export rights, put another end to government borrowing in London. Two small loans were issued in the 1920s, one for £ 1.25 million in 1922 and another for £ 2.0 million in 1928, but they were inconsequential in comparison with government borrowing in New York, and Peru went into default again in 1931 following the fall of Leguía (Wynne 1951: 182-186; Marichal 1989: 213, 255). The main British investments in Peru after the Pacific War thus took the form of direct investments, largely in the form of free-standing companies.

This investment arrived in two waves. The first, between 1889 and 1891, was brought to a precipitate end by the onset of the Baring Crisis. It included the establishment of the Peruvian Corporation to operate the concessions transferred to the bondholders under the Grace Contract, the foundation of the London and Pacific Petroleum Company, and a handful of smaller enterprises including the Peruvian Cotton Manufacturing Company and the Backus & Johnston Brewery, both the latter being purchased by British investors from Peruvian owners.[29] The second wave, from about 1905 until 1913, included the formation of Lobitos Oil-fields Limited, the Lagunitas Oil Company, two more railway enterprises, and several mining companies. After the First World War two more small firms were floated in London to operate mining and oil concessions in Peru. However, other entrepreneurs who had obtained concessions from the Peruvian government, for a new railway scheme and for a national petroleum refinery, failed to find financial backing in London.[30]

It is difficult to put a precise figure on this investment for a number of reasons: much of the Peruvian Corporation's capital was 'water'; issued shares and bonds did not necessarily represent a true value for assets, especially when a company accumulated hidden reserves or reinvested profits; shares and bonds quoted in London were not necessarily

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29 Of these only the Peruvian Corporation and the brewery were quoted on the Stock Exchange. The Peruvian Cotton Manufacturing Co. was later incorporated into the Grace empire. In 1913 Keswick's heirs sold the London and Pacific Petroleum Co. to Standard Oil of New Jersey, which renamed it as the International Petroleum Co. and registered it as a subsidiary of the Imperial Oil Co., based in Canada. The Peruvian Corporation and the Backus & Johnston Brewery remained in British hands until the mid-1950s.

30 On the railway scheme (the Dunsmuir concession) see Edgcumbe to Grant Duff, 27 April 1922, PRO, FO 371/7242/A2798. British American Tobacco considered taking a 33-year lease on the state tobacco monopoly, which would have backed the bonds issued to finance such a scheme, but in the end rejected the project: information from Howard Cox, January 1999.

owned by British capitalists; British holdings in some companies were certainly little more than minority portfolio interests. Table 1, however, provides a listing of those British-owned companies known to be operating at the time of the First World War. Of the firms on this list little is known about the mining enterprises, which largely faded into insignificance soon afterwards. It should also be noted that investments in urban utilities, so important to the British position in countries like Argentina and Brazil, were limited in value and largely portfolio in character in Peru (even the Lima Railways Company leased out its lines to the Peruvian Corporation or to Empresas Eléctricas Asociadas). The latter firm did have some British involvement in its management after 1910 as a result of its debenture flotations, but gradually its direction was transferred to Italian and Swiss interests.[31] Consequently the historical analysis of British investments has tended to concentrate on the railways and the oil companies.

It was always difficult to interest British investors in Peru, especially after the Baring Crisis of 1890 made Latin American stocks unattractive to British investors. The newly established Peruvian Corporation thus found it very difficult to finance the repairs and new construction to which it had committed itself in the Grace Contract, and soon entered into a protracted dispute with the government, each accusing the other of reneging on its obligations (Miller 1983: 333-335). This remained unsettled until 1907. For a brief time thereafter British capitalists regarded opportunities in Peru more favourably. Balfour Williamson floated Lobitos Oilfields, the Peruvian Corporation issued a further £ 1.7 million in debentures, and the North Western Railway and Chimbote Coal and Harbour Syndicate raised money for railway projects supported by government guarantees.[32] However, both of the latter quickly ran into conflicts with *the* government over their concessions, while in 1913 a new dispute commenced between the Peruvian Corporation and the government over its rights to export guano.[33] The

31 Roberts (1992: 205); Quiroz (1993: 85); Miller (1998: 234).

32 Miller (1982b: 402); *The Times*, 8 April 1908.

33 Huxley to Norman, 19 September 1910, PRO, FO 371/970/A34245; Des Graz to Grey, 4 February 1912, PRO, FO 371/1457/A9417; Peruvian Corporation, *Annual Report of the Board*, 1913; Peruvian Corporation to Nicolson, 5 March 1914, PRO, FO 371/2082/A9924.

Table 1: Estimated British direct investment in Peru at the time of the First World War

	Date founded	Issued capital (£)	Remarks
Railways			
Peruvian Corporation	1890	21,475,450	Also includes interests in land and oil in Peru, and railways in Bolivia. Book value of Peruvian railway assets in 1915 was £ 10,242,013
North Western Railway	1908	1,014,400	
Chimbote Coal and Harbour Syndicate	1908	200,000	
Lima Railways Co.	1865	500,000	
Oilfields			
Lobitos Oilfields	1908	360,000	
Mines			
Aporama Goldfields	1910	300,000	
Ferrobamba	1909	150,000	probably US-controlled
New Chuquitambo Gold Mines	1907	44,800	
Peruvian Consolidated Gold Trust	1911	76,047	
San Antonio de Esquilache Mines	1914	215,000	
Manufacturing			
Backus & Johnston Brewery	1889	263,500	
Santa Rosa Milling	1899	175,000	includes assets in Chile
TOTAL		24,774,197	

Note: There were also minority British investments in the Banco del Perú y Londres, Empresas Eléctricas Asociadas, Peruvian telephone Co., Ticapampa Silver Co., and the International Petroleum Co. — *Source:* Halsey (1918: 322-356, 520-523).

feeling in London towards Peruvian investments, even in this period, was summarised in a comment made by the troubled Chimbote Syndicate to the Foreign Office: "Peruvian stocks were not favourably looked upon by London Financial Houses, and Underwriters, unless such issue was in the form of Bonds, and interest on same guaranteed by the Peruvian Government 'backed' by a good and solid tax."[34] This attitude also made life difficult for established firms with better prospects.

These problems meant that entrepreneurs like William Keswick, for example, would never have been able to capitalise firms like the London and Pacific Petroleum Company adequately, even if he had possessed the necessary expertise in the oil industry to make it successful. It was hardly surprising that after his death his heirs took the decision to sell it to Standard Oil of New Jersey in 1913 (Brown 1985: 16). Balfour Williamson also faced continual problems in financing Lobitos. First they delayed the flotation of the company to await an opportune moment, and then they found that the only way to generate working capital was internally through excessive depreciation allowances which created hidden reserves (Miller 1982b: 402). The Peruvian Corporation similarly found its expansion constrained by its poor profit record and by the difficulties of raising finance in London. It too turned to internal sources of finance, using undistributed profits to construct extensions in Bolivia and Peru in the first decade of the century.[35]

Peru was also not particularly attractive to the larger multinational companies which were becoming a more important component of Britain's direct investments overseas after the turn of the century. Royal Dutch Shell briefly looked for concessions in Peru after the First World War, allegedly helping to finance Leguía's coup d'état in 1919, but they then pulled out for geological reasons and because they did not wish to challenge Standard Oil. Anglo-Persian took a similar decision.[36] In banking, both the Bank of London and South America and the Anglo-South American Bank flirted with expanding their interests after World

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[34] Huxley to Norman, 19 September 1910, PRO, FO 371/970/A34245.

[35] Peruvian Corporation, *Annual Report of the Board*, 1902, p. 8; and J. J. Impett to Clive Sheppard, 17 February 1906, c. 56.4, PCA.

[36] Thorp/Bertram (1978: 101, 109); *West Coast Leader*, 23 September 1924, 28 October 1924, 3 February 1925, 23 June 1925.

War I, but determined in the end not to challenge the domestic business elite (Quiroz 1993: 77). When BOLSA looked at the possibilities again, after the Second World War, it concluded that the country was over-banked and the barriers to entry high due to the structure of domestic business groups.[37] Early British industrial multinationals like Unilever and J. & P. Coats for the most part declined opportunities in the inter-war period, and did not commence manufacturing properly in Peru until the 1950s. In essence, therefore, British direct investments in Peru re-solved around railways and oil, with a few smaller interests in textiles, flour milling, and brewing. It was the former two sectors that gave rise to most of the problems and disputes associated with the idea of business imperialism.

The financial difficulties of these companies on the one hand and the government on the other created an explosive mixture, especially where enterprises operated under specific concessions or with government guarantees. Lobitos is a partial exception. In contrast to London and Pacific and its successor, the International Petroleum Company, it was subject to normal Peruvian petroleum laws without special dispensations on taxes (Miller 1982b: 414-421; Thorp/Bertram 1978: 108-111; Pinelo 1973). Lobitos had its share of labour disputes, with an especially serious one in 1917, but its relationship with the government remained relatively harmonious (Blanchard 1982: 145-146).[38] The fact that Lobitos did not supply the internal market with fuel and was never called upon to do during this period also made for smooth relations with the government. However, in the other cases allegations of non-fulfilment of concessions on the one side and non-payment of guarantees on the other made disputes frequent, as the examples of the Peruvian Corporation, International Petroleum Company, North Western Railway, and Chimbote Syndicate all demonstrate. Provincial interests in a politi-

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37 General Manager's Report on Peru, signed R. A. McWilliam, 22 December 1953, BOLSA papers file 4409, Lloyd's Bank archive, London.

38 Apart from the usual device of paying retainers to influential lawyers and *consejeros*, Lobitos also got over minor problems with the government in the 1920s through the use of short-term loans and gifts to officials: Lobitos Oilfields Limited, Board Minutes, 8 November 1921, 14 February 1922, 10 February 1925, 27 February 1925, Burmah Oil archive, Swindon.

cal system dominated by Congress contributed to conflicts because attacks on foreign companies could place a weak government under pressure. Local considerations conditioned the attitudes of many deputies in the debates over the Grace Contract, when representatives from the south and the mining areas of the centre strongly opposed the agreement (Quiroz 1983: 244-245). The Chimbote Syndicate came under attack from deputies from Ancash who feared that the company would fail to complete its promised railway.[39] Domestic agricultural interests pressurised governments to give them, rather than the Peruvian Corporation, preference in the extraction of guano.[40] Governments consequently wavered between assuaging domestic political feeling and obtaining access to the foreign funds which an agreement with British companies might encourage.

The poor quality of foreign management, especially in the early stages, contributed little to the resolution of conflicts with the government. At its worst it was overlaid with arrogance and racism, as, for example, when the chairman of the Peruvian Corporation in 1898 described Peru as "the typical defaulting Republic of South America".[41] The Corporation seems to have been surprisingly slow to develop efficient management. Initially it preferred to rely on amateurs in the railway field, perhaps reflecting the fact that it was founded by financial speculators rather than as a transport enterprise. The London board frequently overrode the local managers' views. Only after 1908, first with W. L. Morkill and then A. S. Cooper as its representatives in Lima, supported by able managing directors in London, was the Corporation led by men who, however hard-faced in bargaining with the government and trade unions, at least understood the specialised nature of the railway business (Miller 1983: 335-338). However, relations between the company and the government never remained quiescent for long. The Corporation, like railway companies everywhere, faced frequent criticisms over the level of its tariffs and standard of its services. Ini-

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39 Des Graz to Grey, 10 December 1910, PRO, FO 371/1205/A2361.

40 Peruvian Corporation, *Representative's Annual Report*, 1915, pp. 17-18, PCA; and Macera (1977, IV: 333-341).

41 Peruvian Corporation, *Report of Proceedings at Annual General Meeting*, 15 December 1898, p. 3.

tially complaints tended to come from specific interest groups: miners seeking a reduction in the freight for ore, small farmers complaining about the discrimination practised in favour of those who could ship large cargoes, southern politicians criticising the preferential tariffs given to Bolivian freight (Miller 1983: 339-343). Problems increased after the First World War. First the inflation of wages and prices pushed the railways against the upper limit of their agreed tariffs and forced them to apply to the government for an across-the-board increase. Then the *libra peruana* declined in value during the 1920s. This increased the cost of imported supplies and diminished the sterling value of receipts. Nevertheless, the Peruvian Corporation avoided real conflict over tariffs until the 1930s, when increasing road competition, a declining exchange rate, and wage claims all put pressure on passenger and freight costs.[42]

All firms with direct investments, whether merchant houses with interests in agriculture and manufacturing or the railway and oil companies, faced labour problems, especially if they were based in Lima/Callao, and particularly at the end of the First World War. Railway, milling, and textile workers were among the most militant sectors of Peru's labour force. The first important strike on the Central Railway occurred as early as 1892 (Blanchard 1982: 25-26). Milling and textile workers became involved in city-wide strikes under anarchist influence in 1904 and 1913. Railway workers struck on their own more frequently and probably with greater success (Blanchard 1982: 68, 74). The response of the Peruvian Corporation seems to have varied according to the personality of its representative and the political environment. Morkill, for example, took a very hard-line approach, even contrary to the government, in 1909 and 1913 (Blanchard 1982: 67-69, 155). Cooper, his successor, was more conciliatory, pointing out, for example, that housing was "quite inadequate" and in some cases "positively disgraceful", and introducing a superannuation scheme for employees.[43] His approach, however, was aided by the rising traffic receipts of the Corporation in the 1920s and Leguía's co-option of much of the labour

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42 *El Pueblo* (Arequipa), 29 August and 4 September 1934; memorandum by M. Y. Grant, 17 March 1931, file 69, PCA; Peruvian Corporation, *Representative's Annual Report*, 1931, and *Representative's Annual Report*, 1932, pp. 7-8, PCA.

43 Peruvian Corporation, *Representative's Annual Report*, 1920, pp. 7-8, PCA.

movement. When, in the 1930s, declining economic conditions coincided with a government much more antagonistic towards foreign firms, the Peruvian Corporation ran into a series of bitter conflicts with its workforce, especially in Arequipa where, because of the Southern Railway management's poor relations with the local economic elite, its only allies seemed to be a few government and police officials, to whom the company paid bribes.[44]

Conclusion: the dynamics of British business and its role in Peru

This paper represents the first real attempt to draw together historical research on British interests in Peru before and after the Pacific War. However, research on the topic is fraught with difficulties, and it is important to recognise its limitations. The archival material is extremely patchy. Gibbs' records on guano and nitrate are superb, but most of the other merchants' papers have vanished. Despite its size the contents of the Peruvian Corporation archives are disappointing, although Lobitos, as a company, is much better documented. Thus historians have to reconstruct British business activities in Peru after the Pacific War from rather fragmentary data. The extent to which one can generalise from the Peruvian case is also debatable. The profile of British business in Peru was unique in Latin America, due to the continued heightened role of merchants, the problems of direct investment, and the lack of government borrowing. For the British this meant that the management of Anglo-Peruvian relations, especially after the First World War, never presented the difficulties that Argentina, Brazil, or Uruguay did. However, despite this distinctiveness this study does shed some light on both the major bodies of literature which provide a context for research: that on the dynamism and structure of British business overseas and that on informal and business imperialism.

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44 Peruvian Corporation, *Representative's Annual Report*, 1934, file 333, PCA; *El Pueblo*, 20 August 1934; L. S. Blaisdell to F. F. Hixson, 29 August 1935, c. 19.8, PCA.

The British in Peru were always just one part of a cosmopolitan business elite, which included other foreign, immigrant, and domestic entrepreneurs. Even in the inter-war period the British community in Peru probably numbered no more than 1,600 people, much less than its counterparts in other Latin American countries.[45] While the aftermath of the Pacific War strengthened the British merchant position in Peru and saw the initiation of some important direct investments, both by the merchants and by London-registered companies, this dynamism was relatively short-lived and the pattern established then persisted until the mid-twentieth century. External factors imposed limits to the entrepreneurship of the merchants. Although they were constantly on the lookout for new opportunities, the reluctance of London financiers to invest in Peru made it difficult to raise funds on the scale necessary to pursue many of the projects. The success of Milnes' and Balfour Williamson's partnership in developing Lobitos was partly fortuitous, in that they managed to float the company during the one period after the early 1870s, 1908-13, when the City showed some interest in Peru (Miller 1982b: 402). Other groups were less perceptive or less fortunate. Antony Gibbs and Sons, when offered the opportunity to participate in the Cerro de Pasco copper industry in 1900, still thought in terms of the type of financing and consignment arrangements which they had adopted in mid nineteenth-century Chile, rather than on the scale necessary for the increasingly cartelised industry of the early twentieth century.[46] The Peruvian Corporation also totally underestimated the significance of the copper resources of the central sierra and could not finance its concessions.[47] Thus mining fell into US hands. And despite the continued importance of British markets the Liverpool and London merchant houses which had been so significant immediately after the Pacific War eventually became overshadowed by a US competitor with strong connections in London, W. R. Grace & Co. By 1914 Grace was the leading foreign merchant house in Peru, with both a strong import-

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45 Lima Chancery to Foreign Office, 9 April 1935, PRO, FO 371/18696/A4050/1536/51.

46 London to Valparaíso, 30 November 1900 and 25 January 1901, GL, Gibbs archive, file 11471/68.

47 J. J. Impett to A. Schatzmann, 8 March 1904, file B1/6, PCA.

export business and a range of direct investments, especially in textiles and sugar, precisely the areas where the British should have possessed advantages.

During the 1920s British business suffered from a number of further difficulties which other foreign interests were able to avoid. First, the British government imposed unprecedented barriers to foreign lending. This meant that British entrepreneurs were unable to raise capital for the principal concessions they secured from the Leguía government or which were brought to the City by businessmen of other nationalities. The one major British concession secured and put into operation in the 1920s was the Marconi Contract for the operation of the country's posts and telecommunications. Surrounded by scandal and controversy, it was cancelled after the fall of Leguía.[48] At the same time the volatility of commodity markets undermined the core Peruvian business of the merchant houses, bringing about the collapse of Graham Rowe, which had been present in Peru for over a hundred years. Given the international operations of many of the firms in Lima, the problems faced by the Chilean branches of Huth, Gibbs, Duncan Fox, Graham Rowe, and Balfour Williamson after the mid-1920s clearly reduced the resources they could mobilise for Peru. In Lima the British were eventually squeezed between the powerful domestic business groups which had developed since the Pacific War and the US multinationals which could generate much greater resources of their own for investment. Those firms like Duncan Fox which did survive in Lima, as well as the British industrial multinationals which arrived after the Second World War, succeeded only by co-operating with powerful domestic families like the Wiese or the Fe-rreyros. In the end the smaller free-standing companies were also sold to groups of this kind, Santa Rosa in 1951 and Backus & Johnston in 1955.

Overall the British certainly contributed to Peru's dependence on exports, both through merchant finance and through their possession of the railways. However, except for Lobitos' interests in oil, they never took control of export production themselves on any scale, in contrast to US dominance of mining and petroleum. This had various conse-

48 *West Coast Leader*, 14 May 1921, 4 December 1922, 1 September 1925, 12 April 1932.

quences. It meant a fairly high 'returned value' for Peru in sugar, cotton, and wool (as in guano), and aided the growth of a domestic business elite based on the coast. The limited scale of British investment after 1890 did not create the balance of payments problems that the leakage of foreign exchange to pay interest and dividends did for Argentina and Brazil. British merchants did offer Peruvian producers access to credit at much lower interest rates than ruled locally, especially in the 1880s and 1890s. This aided the recovery of the sugar industry at a time of severe world competition and then the expansion of the cotton trade. These arguments, however, lead discussion about Peru's development problems back to the strategies adopted by the state and domestic business elite to manage, distribute, and reinvest the wealth which the country's export success gave them. Much more research is required on the domestic business groups which arose in the aftermath of the Pacific War and their relationship with the state.[49]

To deal finally, with perhaps the key question arising from the imperialism debate, it is difficult to see British interests as controlling economic policy in Peru. In both the guano and nitrate trades before the Pacific War the Lima government had taken the lead in policy-making, although it was always acting within the constraints of the massive indebtedness incurred by earlier administrations. In the Grace Contract negotiations it was the Cáceres government that decided that recovering its credit abroad was a sufficient priority for it to override nationalist feeling and constitutional niceties. It thus put itself at the mercy of the speculators who surrounded the Bondholders' Committee. As the economy recovered in the late 1890s domestic financial interests displaced the foreign insurance companies and developed the banks. The key areas of fiscal and monetary policy were reserved to the government throughout the period. Since there was no government debt of any significance Peru did not undergo the experience of Argentina and Brazil in the 1890s when, to some extent, domestic economic policies were dictated by the need to maintain the confidence of British creditors (Marichal 1989: chap. 6). The lack of dependence on foreign loans after

49 The only works which really analyse any of the domestic business groups in depth are Burga/Flores Galindo (1979), Gilbert (1982), Gonzales (1985), Portocarrero (1986) and Reaño/Vásquez (1988).

its default in 1876 gave Peruvian governments a freedom of action denied to other countries which felt it necessary to appease the London capital markets. Whether they used it effectively is another question.

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